

FDIC State Profile

Spring 2005

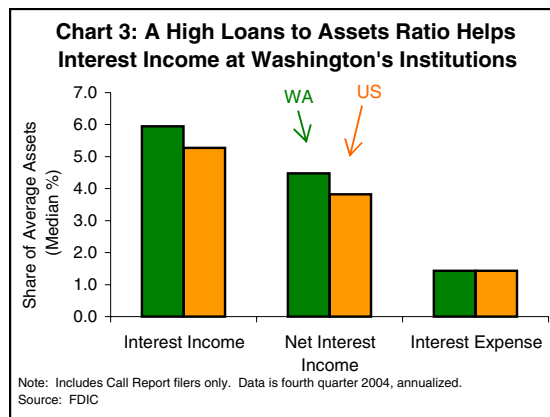
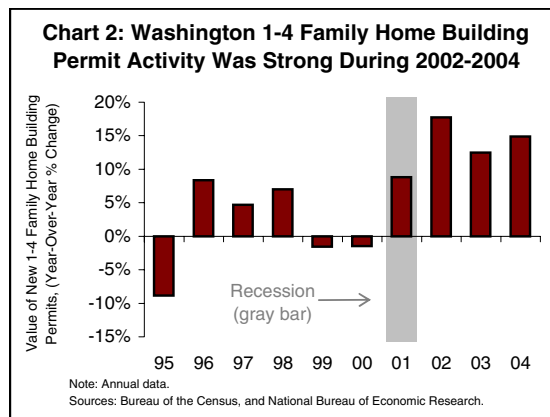
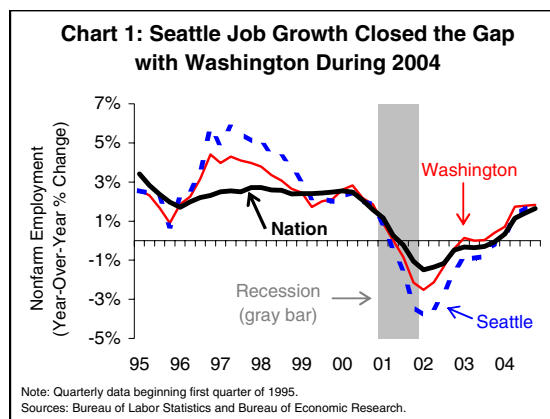
Washington

Job growth in Washington was the 15th fastest in the nation.

- Nonfarm jobs in the state grew 1.8 percent during the year ending fourth quarter 2004. This was a significant improvement from a year earlier when the state recorded a minuscule 0.4 percent growth rate. Strong growth is expected to continue in 2005.¹
- Job gains were led by the trade, transportation, and utilities sector, which added 12,900 new jobs. More than half of the job gains were in the retail trade industry.
- The professional and business services sector contributed to the rebound with the addition of 12,700 new jobs; more than half of the net contribution was located in the **Seattle-Bellevue-Everett** metro area.
- The large Seattle metro area, which accounts for more than half of the state's employees, reported positive job growth in early 2004 following 11 quarters of job losses (See Chart 1). The manufacturing sector reported small job gains as Boeing, the area's largest employer, began adding jobs in June 2004 and, as of February 2005, appeared to be turning around. Microsoft Corporation, the second largest employer, continued to report solid results and declared a \$32 billion dividend at year-end 2004; Seattle-based Microsoft employees benefited significantly.

Home prices boosted construction.

- The Washington construction sector contributed 6,600 new jobs during 2004, primarily in the Seattle metropolitan area. Driving this growth was, in part, the strong value of 1-4 family residential construction permits during 2004 (See Chart 2).
- Home prices in the state appreciated 10.9 percent during the year ending fourth quarter 2004, only slightly below the national rate of 11.2 percent. The **Bellingham** metro area reported the fastest home price appreciation in the state at 20.4 percent, while the **Yakima** metro area came in last at 4.0 percent.



¹"Western Blue Chip Economic Forecast", W.P. Carey School of Business at Arizona State University, December 2004.

State Profile

Commercial real estate (CRE) fundamentals show improvement.

- Strong job growth, in part because of 67 percent growth in venture capital investments in Washington during 2004, has contributed to an improved outlook for CRE office fundamentals. The Seattle office vacancy rate decreased from its fourth quarter 2003 level of 14.9 percent to 14.4 percent for fourth quarter 2004, and is projected to decline to 9.3 percent over the next two years.²
- Seattle industrial property vacancy rates also declined from 10.8 percent to 8.6 percent during the year. Despite anticipated strong completions, industry analysts project a further strengthening in machinery, food processing, and aerospace manufacturing employment, which will help keep industrial vacancy rates at current levels through year-end 2006.
- In keeping with the improvement in CRE economic fundamentals, the median CRE past-due ratio declined to nominal levels among insured institutions based in the Seattle metro area. However, the delinquency ratio may be benefiting from strong loan growth; the median annual growth rates for construction and development and other CRE loans at these institutions were 19 percent and 28 percent, respectively, for 2004. Median CRE exposure, which was 424 percent of Tier 1 capital as of year-end 2004, ranked 34th among 227 metro areas in the nation.

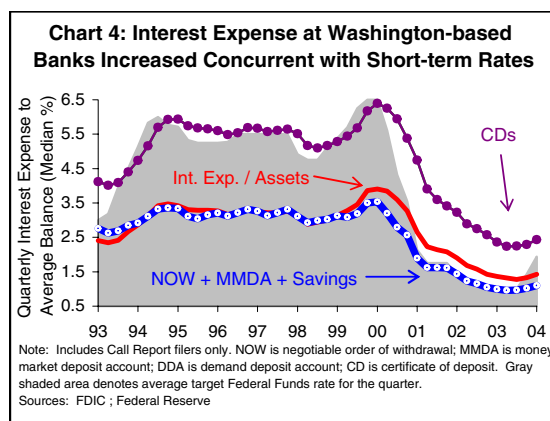
Loan growth translated into a strong net interest margin (NIM), maintaining earnings performance.

- Despite improved economic conditions, year-over-year earnings for 2004 were generally unchanged at insured financial institutions headquartered in Washington. 2004 results continued to exceed the national median of 1.02 percent. A strong and expanding NIM offset small increases in overhead and reductions in noninterest income.
- Earnings were boosted by robust loan growth, which at 15 percent was almost double the 8 percent 2003 median annual loan growth rate, the 11th highest in the nation in 2004. As a result, the median loan-to-assets ratio increased to 76 percent as of year-end 2004, up from 73 percent one year ago and ranking fourth highest in the nation.
- The higher percentage of loans on Washington-based institution balance sheets results in an interest income to average asset ratio higher than the nation, translating

into a higher NIM than institutions nationwide (See Chart 3).

Interest expense among Washington-based banks increased concurrent with short-term interest rates.

- Trends in quarterly interest expense mirrored the Federal Funds rate, which began to increase in late second quarter 2004, with NOW, MMDA, and savings account rates rising slightly more rapidly than certificate of deposit rates (See Chart 4).³
- At year-end 2004, noncore funds financed 23 percent of total assets at Washington-based institutions compared with 19 percent nationally. With noncore funding typically more sensitive to interest rate changes, funding costs likely will rise more rapidly at institutions using higher levels of noncore funding.



²The data and forecast source is TortoWheaton Research.

³NOW is negotiable order of withdrawal (an interest-bearing checking account with restrictions); MMDA is money market deposit account (an interest-bearing savings vehicle with limited check-writing privileges).

Washington at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.8%	0.4%	-0.4%	-2.1%	1.9%
Manufacturing (10%)	0.7%	-4.9%	-9.2%	-7.4%	-2.4%
Other (non-manufacturing) Goods-Producing (6%)	4.3%	1.8%	0.1%	-4.7%	2.1%
Private Service-Producing (64%)	2.1%	1.2%	0.4%	-3.0%	2.8%
Government (19%)	0.7%	0.1%	2.0%	5.4%	1.4%
Unemployment Rate (% of labor force)	5.9	7.2	7.2	7.0	5.2

Other Indicators	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Personal Income	N/A	3.4%	2.3%	2.8%	3.4%
Single-Family Home Permits	12.6%	-5.8%	39.3%	-7.4%	-1.5%
Multifamily Building Permits	136.3%	-40.7%	15.5%	-37.9%	13.8%
Existing Home Sales	19.0%	5.0%	21.1%	-5.5%	-1.6%
Home Price Index	10.9%	5.7%	4.7%	5.7%	5.7%
Bankruptcy Filings per 1000 people (quarterly level)	1.38	1.53	1.60	1.48	1.27

BANKING TRENDS

General Information	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Institutions (#)	98	100	102	98	102
Total Assets (in millions)	78,503	78,396	72,235	72,539	72,116
New Institutions (# < 3 years)	8	6	11	14	18
Subchapter S Institutions	7	5	5	5	3

Asset Quality	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.62	0.90	1.05	1.40	1.04
ALLL/Total Loans (median %)	1.28	1.37	1.31	1.20	1.14
ALLL/Noncurrent Loans (median multiple)	2.75	1.92	1.69	1.32	1.90
Net Loan Losses / Total Loans (median %)	0.11	0.12	0.11	0.10	0.07

Capital / Earnings	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Tier 1 Leverage (median %)	9.93	9.67	9.45	9.30	10.29
Return on Assets (median %)	1.05	1.06	1.02	0.94	0.96
Pretax Return on Assets (median %)	1.53	1.49	1.36	1.35	1.24
Net Interest Margin (median %)	4.68	4.59	4.67	4.49	5.12
Yield on Earning Assets (median %)	6.19	6.31	7.17	8.24	8.94
Cost of Funding Earning Assets (median %)	1.49	1.72	2.32	3.66	4.03
Provisions to Avg. Assets (median %)	0.23	0.24	0.32	0.28	0.29
Noninterest Income to Avg. Assets (median %)	0.62	0.65	0.62	0.61	0.50
Overhead to Avg. Assets (median %)	3.56	3.54	3.55	3.61	3.67

Liquidity / Sensitivity	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Loans to Assets (median %)	76.0	72.8	72.8	76.5	75.8
Noncore Funding to Assets (median %)	23.0	21.6	22.3	21.9	21.5
Long-term Assets to Assets (median %, call filers)	10.8	14.9	12.1	12.2	10.6
Brokered Deposits (number of institutions)	44	34	33	27	21
Brokered Deposits to Assets (median % for those above)	3.1	2.8	3.0	3.2	3.5

Loan Concentrations (median % of Tier 1 Capital)	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Commercial and Industrial	111.8	116.3	115.4	137.2	124.1
Commercial Real Estate	370.4	357.1	319.0	320.3	257.5
<i>Construction & Development</i>	79.8	68.5	73.6	73.2	49.3
<i>Multifamily Residential Real Estate</i>	25.3	23.5	17.3	20.9	13.7
<i>Nonresidential Real Estate</i>	237.0	232.8	209.0	185.8	170.8
Residential Real Estate	103.7	107.0	119.8	129.9	139.0
Consumer	23.3	23.9	25.4	30.5	30.4
Agriculture	4.4	4.7	2.7	4.9	5.8

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Seattle-Tacoma-Bellevue, WA	71	56,990	< \$250 mil.	56 (57.1%)
Spokane, WA	16	4,806	\$250 mil. to \$1 bil.	30 (30.6%)
Bellingham, WA	14	2,342	\$1 bil. to \$10 bil.	11 (11.2%)
Olympia, WA	18	2,060	> \$10 bil.	1 (1%)
Yakima, WA	12	2,016		